

LLOYDS TSB GROUP PLC
Form 20-F
June 05, 2008

As filed with the Securities and Exchange Commission on 5 June 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended 31 December 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-15246

LLOYDS TSB GROUP plc

(Exact name of Registrant as Specified in Its Charter)

Scotland

(Jurisdiction of Incorporation or Organization)

25 Gresham Street

London EC2V 7HN

United Kingdom

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Ordinary shares of nominal value 25 pence each, represented by American Depositary Shares.

The New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of each of Lloyds TSB Group plc's classes of capital or common stock as of 31 December 2007 was:

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Ordinary shares, nominal value 25 pence each, as of 31 December 2007	5,647,703,945
Limited voting shares, nominal value 25 pence each, as of 31 December 2007	78,947,368
Preference shares, nominal value 25 pence each, as of 31 December 2007	600,400
Preference shares, nominal value 25 cents each, as of 31 December 2007	1,000,000
Preference shares, nominal value 25 euro cents each, as of 31 December 2007	0
Preference shares, nominal value Japanese ¥25 each, as of 31 December 2007	0

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-Accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements including in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Presentation of information

In this annual report, references to **Company** are to Lloyds TSB Group plc; references to **Lloyds TSB Group**, **Lloyds TSB** or **Group** are to Lloyds TSB Group plc and its subsidiary and associated undertakings; references to **Lloyds TSB Bank** are to Lloyds TSB Bank plc; and references to the **consolidated financial statements** or **financial statements** are to Lloyds TSB Group's consolidated financial statements included in this annual report. References to the **Financial Services Authority** or **FSA** are to the United Kingdom (the **UK**) Financial Services Authority.

The Lloyds TSB Group publishes consolidated financial statements prepared in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

Lloyds TSB Group publishes its consolidated financial statements expressed in British pounds (**pounds sterling**, **sterling** or **£**), the lawful currency of the UK. In this annual report, references to **pence** and **p** are to one-hundredth of one pound sterling; references to **US dollars**, **US\$** or **\$** are to the lawful currency of the United States (the **US**); references to **cent** or **c** are to one-hundredth of one US dollar; references to **euro** or **€** are to the lawful currency of the member states of the European Union that have adopted a single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty of European Union; references to **euro cent** are to one-hundredth of one euro; and references to **Japanese yen** **Japanese ¥** or **¥** are to the lawful currency of Japan. Solely for the convenience of the reader, this annual report contains translations of certain pounds sterling amounts into US dollars at specified rates. These translations should not be construed as representations by Lloyds TSB Group that the pounds sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated or at any other rate. Unless otherwise stated, the translations of pounds sterling into US dollars have been made at the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the **Noon Buying Rate**) in effect on 31 December 2007, which was \$1.9843 = £1.00. The Noon Buying Rate on 31 December 2007 differs from certain of the actual rates used in the preparation of the consolidated financial statements, which are expressed in pounds sterling, and therefore US dollar amounts appearing in this annual report may differ significantly from actual US dollar amounts which were translated into pounds sterling in the preparation of the consolidated financial statements in accordance with IFRS.

Business overview

Lloyds TSB Group is a leading UK-based financial services group, whose businesses provide a wide range of banking and financial services in the UK and a limited number of locations overseas. At 31 December 2007 total Lloyds TSB Group assets were £353,346 million and Lloyds TSB Group had some 58,000 employees (on a full-time equivalent basis). Lloyds TSB Group plc's market capitalisation at that date was some £26,700 million. The profit before tax for the 12 months to 31 December 2007 was £4,000 million and the risk asset ratios as at that date were 11.0 per cent for total capital and 8.1 per cent for tier 1 capital.

The operations of Lloyds TSB Group in the UK were conducted through over 2,000 branches of Lloyds TSB Bank, Lloyds TSB Scotland plc and Cheltenham & Gloucester plc at the end of December 2007. As described on page 8, Cheltenham & Gloucester plc (C&G) is the Group's specialist mortgage arranger. Following the transfer of its mortgage lending and deposits to Lloyds TSB Bank during 2007, C&G now arranges mortgages for Lloyds TSB Bank rather than for its own account. International business is conducted mainly in the US and continental Europe. Lloyds TSB Group's services in these countries are offered largely through branches of Lloyds TSB Bank. Lloyds TSB Group also offers offshore banking facilities in a number of countries. For additional information see Regulation .

Lloyds TSB Group's activities are organised into three divisions: UK Retail Banking, Insurance and Investments and Wholesale and International Banking. Services provided by UK Retail Banking include the provision of banking and other financial services to personal customers, private banking and mortgages. Insurance and Investments offers life assurance, pensions and investment products, general insurance and fund management services. Wholesale and International Banking provides banking and related services for major UK and multinational corporates and financial institutions, and small and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages Lloyds TSB Group's activities in financial markets through its treasury function and provides banking and financial services overseas.

The following table shows the results of Lloyds TSB Group's UK Retail Banking, Insurance and Investments and Wholesale and International Banking segments and Central group items in each of the last three fiscal years. In order to provide a more comparable representation of business performance volatility (see Operating and financial review and prospects Line of business information Volatility , for a description of volatility, its significant limitations and the processes put in place by management to compensate for these limitations) has been separately analysed from the results of the individual business units so that, where appropriate, information is presented both in accordance with applicable accounting standards (statutory) and on a basis which excludes volatility (excluding volatility).

	Profit before tax (statutory)			Profit before tax (excluding volatility)		
	2007 £m	2006 £m	2005 £m	2007 £m	2006 £m	2005 £m
UK Retail Banking	1,732	1,549	1,394	1,732	1,549	1,394
Insurance and Investments	828	1,383	1,474	1,328	973	725
Wholesale and International Banking	1,822	1,640	1,518	1,822	1,640	1,518
Central group items	(382)	(324)	(566)	(382)	(324)	(566)
Profit before tax, excluding volatility				4,500	3,838	3,071
Volatility*				(500)	410	749
Profit before tax	4,000	4,248	3,820	4,000	4,248	3,820

* Volatility relates to Insurance and Investments.

Lloyds TSB Group plc was incorporated as a public limited company and registered in Scotland under the UK Companies Act 1985 on 21 October 1985 with the registered number 95000. Lloyds TSB Group plc's registered office is Henry Duncan House, 120 George Street, Edinburgh EH2 4LH, Scotland, and its principal executive offices in the UK are located at 25 Gresham Street, London, EC2V 7HN, United Kingdom, telephone number + 44 (0) 20 7626 1500.

Selected consolidated financial data

The financial information set out in the tables below has been derived from the annual reports and accounts of Lloyds TSB Group plc for each of the past five years adjusted for subsequent changes in accounting policy and presentation. These tables have been prepared in accordance with IFRS (for 2004 and later years) and with UK Generally Accepted Accounting Principles (for 2003) and, as a result, the information included for 2004 and later years is not directly comparable with that for 2003. The financial statements for each of the years 2003 to 2007 have been audited by PricewaterhouseCoopers LLP, independent accountants.

IFRS	2007	2006	2005	2004 ¹
Income statement data for the year ended 31 December (£m)				
Total income, net of insurance claims	10,706	11,104	10,540	9,661
Operating expenses	(5,567)	(5,301)	(5,471)	(5,297)
Trading surplus	5,139	5,803	5,069	4,364
Impairment losses on loans and advances	(1,796)	(1,555)	(1,299)	(866)
Profit before tax	4,000	4,248	3,820	3,477
Profit for the year	3,321	2,907	2,555	2,459
Profit for the year attributable to equity shareholders	3,289	2,803	2,493	2,392
Total dividend for the year ²	2,026	1,928	1,915	1,914
Balance sheet data at 31 December (£m)				
Share capital	1,432	1,429	1,420	1,419
Shareholders' equity	12,141	11,155	10,195	11,047
Customer accounts	156,555	139,342	131,070	119,811
Preferred securities	3,031	2,957	2,549	1,388
Undated subordinated liabilities	4,869	4,863	5,184	4,464
Dated subordinated liabilities	4,058	4,252	4,669	4,400
Loans and advances to customers	209,814	188,285	174,944	155,318
Total assets	353,346	343,598	309,754	284,422
Share information				
Basic earnings per ordinary share	58.3p	49.9p	44.6p	42.8p
Diluted earnings per ordinary share	57.9p	49.5p	44.2p	42.5p
Net asset value per ordinary share	212p	195p	180p	195p
Total dividend per ordinary share ²	35.9p	34.2p	34.2p	34.2p
Equivalent cents per share ^{2,3}	71.0c	67.0c	62.2c	63.7c
Market price (year end)	472p	571.5p	488.5p	473p
Number of shareholders (thousands)	814	870	920	953
Number of ordinary shares in issue (millions) ⁴	5,648	5,638	5,603	5,596
Financial ratios (%)⁵				
Dividend payout ratio	61.6	68.8	76.8	80.0
Post-tax return on average shareholders' equity	28.2	26.6	25.6	22.8
Post-tax return on average assets	0.94	0.88	0.84	0.92
Post-tax return on average risk-weighted assets	2.03	1.89	1.81	1.99
Average shareholders' equity to average assets	3.3	3.2	3.2	3.9
Cost:income ratio ⁶	52.0	47.7	51.9	54.8
Capital ratios (%)⁷				
Total capital	11.0	10.7	10.9	10.1
Tier 1 capital	8.1	8.2	7.9	8.2

Selected consolidated financial data

UK GAAP	2003
Profit and loss account data for the year ended 31 December (£m)	
Net interest income	5,255
Other finance income	34
Other income	4,619
Operating expenses	(5,173)
Trading surplus	4,735
Provisions for bad and doubtful debts	(950)
Profit on ordinary activities before tax	4,348
Profit on ordinary activities after tax	3,323
Profit for the year attributable to equity shareholders	3,254
Dividends ⁸	1,911
Balance sheet data at 31 December (£m)	
Called-up share capital	1,418
Shareholders' funds (equity and non-equity)	9,624
Customer accounts	116,496
Undated subordinated loan capital	5,959
Dated subordinated loan capital	4,495
Loans and advances to customers	135,251
Assets ⁹	201,934
Total assets	252,012
Share information	
Basic earnings per ordinary share	58.3p
Diluted earnings per ordinary share	58.1p
Net asset value per ordinary share	170p
Dividends per ordinary share ⁸	34.2p
Equivalent cents per share ^{3, 8}	59.9c
Market price (year end)	448p
Number of shareholders (thousands)	974
Number of ordinary shares in issue (millions) ⁴	5,594
Financial ratios (%)⁵	
Dividend payout ratio	58.7
Post-tax return on average shareholders' equity	38.5
Post-tax return on average assets	1.57
Post-tax return on average risk-weighted assets	2.63
Average shareholders' equity to average assets	4.0
Cost:income ratio ¹⁰	52.2
Capital ratios (%)	
Total capital	11.3
Tier 1 capital	9.5

¹ Except for capital ratios (see 7 below), comparative data for 2004 excludes the provisions of IAS 32, IAS 39 and IFRS 4, which were adopted with effect from 1 January 2005.

² Annual dividends comprise both interim and final dividend payments. For the purposes of the IFRS disclosures in this table, the total dividend for the year represents the interim dividend paid during the year and the final dividend, which is paid and accounted for in the following year.

³ Translated into US dollars at the Noon Buying Rate on the date each payment was made.

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- 4 This figure excludes the 79 million limited voting ordinary shares owned by the Lloyds TSB Foundations.
- 5 Averages are calculated on a monthly basis from the consolidated financial data of Lloyds TSB Group.
- 6 The cost:income ratio under IFRS is calculated as total operating expenses as a percentage of total income (net of insurance claims).
- 7 In order to provide a more meaningful comparison, capital ratios are shown at 1 January 2005, rather than 31 December 2004, in order to reflect the application of those accounting standards applied with effect from 1 January 2005.
- 8 Annual dividends comprise both interim and final dividend payments. Under UK GAAP, final dividends are included in the year to which they relate rather than in the year in which they are paid.
- 9 Assets exclude long-term assurance assets attributable to policyholders.
- 10 The cost:income ratio under UK GAAP is calculated as total operating expenses as a percentage of total income.

Exchange rates

In this annual report, unless otherwise indicated, all amounts are expressed in pounds sterling. For the months shown the US dollar high and low Noon Buying Rates per pound sterling were:

	2008 April	2008 March	2008 February	2008 January	2007 December	2007 November
US dollars per pound sterling:						
High	2.00	2.03	1.99	1.99	2.07	2.11
Low	1.96	1.98	1.94	1.95	1.98	2.05

For each of the years shown, the average of the US dollar Noon Buying Rates per pound sterling on the last day of each month was:

	2007	2006	2005	2004	2003
US dollars per pound sterling:					
Average	2.01	1.86	1.81	1.84	1.64

On 8 May 2008, the latest practicable date, the US dollar Noon Buying Rate was \$1.9543 = £1.00. Lloyds TSB Group makes no representation that amounts in pounds sterling have been, could have been or could be converted into US dollars at that rate or at any of the above rates.

Business

History and development of Lloyds TSB Group

The history of the Lloyds TSB Group can be traced back to the 18th century when the banking partnership of Taylors and Lloyds was established in Birmingham, England. Lloyds Bank Plc was incorporated in 1865 and during the late 19th and early 20th centuries entered into a number of acquisitions and mergers, significantly increasing the number of banking offices in the UK. In 1995, it continued to expand with the acquisition of the Cheltenham and Gloucester Building Society.

TSB Group plc became operational in 1986 when, following UK government legislation, the operations of four Trustee Savings Banks and other related companies were transferred to TSB Group plc and its new banking subsidiaries. By 1995, the TSB Group had, either through organic growth or acquisition, developed life and general insurance operations, investment management activities, and a motor vehicle hire purchase and leasing operation to supplement its retail banking activities.

In 1995, TSB Group plc merged with Lloyds Bank Plc. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group plc, which was re-named Lloyds TSB Group plc with Lloyds Bank Plc, which was subsequently renamed Lloyds TSB Bank plc, the principal subsidiary. In 1999, the businesses, assets and liabilities of TSB Bank plc, the principal banking subsidiary of the TSB Group prior to the merger, and its subsidiary Hill Samuel Bank Limited were vested in Lloyds TSB Bank plc, and in 2000, Lloyds TSB Group acquired Scottish Widows. In addition to already being one of the leading providers of banking services in the UK, this transaction also positioned Lloyds TSB Group as one of the leading suppliers of long-term savings and protection products in the UK.

In more recent years, the Lloyds TSB Group has disposed of a number of its non-core operations, as part of the process of managing its portfolio of businesses to focus on its core markets. These disposals have resulted in a significant reduction in the size of the Lloyds TSB Group's international business. For additional information on the Lloyds TSB Group see Business Overview .

Strategy of Lloyds TSB Group

In an environment of strong competition, Lloyds TSB Group believes that shareholder value can best be achieved by:

- focusing on markets where it can build and sustain competitive advantage;

- developing business strategies for those markets which are founded on being profitably different in the way it creates customer value; and

- building a high-performance organisation focused on the right goals and the best possible execution of those strategies.

Reflecting this, in 2003 the Lloyds TSB Group put in place a three-phase strategy. In phase 1, now completed, the Lloyds TSB Group focused on enhancing the quality of its earnings by exiting businesses which were not regarded as core or which added unnecessary volatility to its earnings. During this phase, the Lloyds TSB Group divested businesses in New Zealand and Latin America, markets in which it did not expect to be able to build and sustain competitive advantage. In phase 2, Lloyds TSB Group's focus is on accelerating growth by deepening its customer relationships and improving its productivity and, in the process, building competitive advantage through enhancing its capabilities. Lloyds TSB Group believes that this has already resulted in improved earnings growth in its core markets.

The Lloyds TSB Group remains alert for opportunities to grow inorganically to complement its organic strategies and help provide new opportunities for profitable growth, both in the UK and overseas. In phase 3, the Lloyds TSB Group expects to leverage its financial strength and enhanced capabilities in new markets.

Relationships are critical to the Lloyds TSB Group's strategy. The Lloyds TSB Group has chosen to focus on building deep, long-lasting relationships with the Group's customers in order to deliver high quality, sustainable results over time. By building deep relationships, the Lloyds TSB Group aims to maintain stable revenues and thus achieve a lower risk profile.

Markets

Lloyds TSB Group continues to focus on building competitive advantage in its core markets by seeking opportunities to consolidate its position in businesses where it is already strong, through a combination of organic growth and acquisitions, and by divesting businesses in markets where it is not a leader and cannot aspire reasonably to leadership. In 2007, the Lloyds TSB Group

continued to move out of non-core markets with the sale of Lloyds TSB Registrars and Abbey Life Assurance Company Limited (Abbey Life).

There remains significant growth potential for the Lloyds TSB Group within the UK. The UK remains an attractive market and the Lloyds TSB Group believes that it has good potential within its existing franchise to grow by meeting more of the Group s customers needs as well as through adding new customers to the franchise.

Strategy

Lloyds TSB Group s strategy is based on a belief that sustained growth comes from simultaneously focusing on (i) building strong customer relationships, (ii) continuous productivity improvement and (iii) strong capital management.

(i) Strong customer relationships

In an increasingly competitive financial services market, and with customers able to exercise choice amongst alternative providers, shareholder value creation is closely linked to customer value creation. Shareholder value can only be created by attracting and retaining customers and winning a greater share of their financial services business. Across its main businesses, Lloyds TSB Group has strong core banking franchises, based on building strong customer relationships. The Lloyds TSB Group s strategy is focused on being differentiated in the creation of customer value to win a bigger share of its customers total financial services spend.

Strong franchises depend on having highly motivated employees. Since 2003, measures of the Lloyds TSB Group s employee engagement from an independent survey by Towers Perrin ISR have shown a sustained steady improvement across all divisions. Towers Perrin ISR research shows that high employee engagement scores are positively correlated with business performance.

Business

Motivated employees, combined with investments in improving service, help to build customer advocacy. The Lloyds TSB Group's customer satisfaction and advocacy scores have also improved in recent periods. The Lloyds TSB Group will continue to invest in the drivers of customer advocacy. Against this background, the Lloyds TSB Group has continued to achieve stronger sales and income growth in its three business divisions, UK Retail Banking, Insurance and Investments and Wholesale and International Banking.

(ii) Continuous productivity improvement

Superior economic profit growth also requires a continuous focus on productivity improvement, which drives both improved customer service and cost reduction. In recent years, the Lloyds TSB Group has been building a set of capabilities in six sigma (error reduction), lean manufacturing (operations efficiency) and procurement. Alongside those capabilities, the Lloyds TSB Group applies an income growth must exceed cost growth discipline in setting goals for each business, requiring a wider gap between income growth and cost growth for lower growth/return businesses than for higher growth/return businesses.

The results are showing across all three divisions in much reduced error rates in key processes, growing levels of income per employee and falling unit costs, without impacting investment in future growth. Further improvements in the Lloyds TSB Group's cost:income ratio are expected as these capabilities and disciplines are extended further.

(iii) Capital management

Lloyds TSB Group measures value internally by economic profit growth, a measure of financial performance which signals unambiguously where value is created or destroyed. It has developed a framework to measure economic equity requirements across all its businesses, taking into account market, credit, insurance, business and operational risk. Using economic profit as a key performance measure enables the Lloyds TSB Group to understand which strategies, products, channels and customer segments are destroying value and which are creating the most value and to make better capital allocation decisions as a result.

The application of these economic profit disciplines, alongside goal-setting linked to ensuring that revenue growth constantly exceeds cost growth, has already been reflected in a significant improvement in the capital efficiency of the Lloyds TSB Group's Insurance and Investments division and by a shift in business mix towards sectors offering higher risk-adjusted returns in wholesale banking. By the continued rigorous application of these disciplines at every level, the Lloyds TSB Group expects to further improve capital efficiency whilst remaining strongly capitalised.

It is the Lloyds TSB Group's belief that the relationship focused strategy has demonstrated its effectiveness in generating sustainable, high quality results through the cycle. The prudent approach to risk means that the Lloyds TSB Group believes that it has relatively limited